

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7595

BILL NUMBER: HB 1681

NOTE PREPARED: Jan 9, 2007

BILL AMENDED:

SUBJECT: Sales Tax Holiday.

FIRST AUTHOR: Rep. Reardon

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a Sales Tax exemption for clothing, clothing accessories, school art supplies, school computer supplies, school instructional material, and school supplies that are purchased on the first Saturday of August of each year.

Effective Date: April 1, 2007 (retroactive).

Explanation of State Expenditures: This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax forms, as well as update computer software. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: This bill will cause a decrease in Sales Tax collections of approximately \$18.7 M in FY 2008 and \$19.8 M in FY 2009.

The bill provides a Sales Tax exemption for certain back-to-school purchases on the first Saturday of August each year. The bill also provides that the exemption only applies to items that are priced at \$150 or below.

The first table below shows the revenue lost from each category of purchases that are exempted in the bill. The second table shows the impact on the funds included in the Sales Tax distribution.

| Item Exempted (priced under \$150) | FY 2008 (in millions) | FY 2009 (in millions) |
|--|----------------------------------|----------------------------------|
| Clothing and Clothing accessories | \$0.77 | \$0.79 |
| K-12 Supplies & Materials* | \$6.05 | \$6.23 |
| College Textbooks | \$5.87 | \$6.47 |
| College Supplies & Materials* | \$1.34 | \$1.42 |
| Computer Supplies | \$4.70 | \$4.90 |
| TOTAL | \$18.73 | \$19.81 |
| * The term "Supplies and Materials" includes all schools supplies, school art supplies, and school instructional materials as defined in the bill. | | |

| Fund | FY 2008 (in millions) | FY 2009 (in millions) |
|---------------------------------|----------------------------------|----------------------------------|
| General Fund | \$9.217 | \$9.747 |
| Property Tax Replacement Fund | \$9.369 | \$9.907 |
| Public Mass Transportation Fund | \$0.119 | \$0.126 |
| Industrial Rail Service Fund | \$0.006 | \$0.007 |
| Commuter Rail Service Fund | \$0.026 | \$0.028 |
| TOTAL | \$18.73 | \$19.81 |

Estimation Issues: Please note that the estimated revenue impact above assumes that 95% of all clothing and clothing accessory purchases, and 95% of all textbook purchases are below the price ceiling of \$150 contained in the bill. Also, it is assumed that 75% of all computer supply purchases are below the price ceiling of \$150.

Also note that the April 1, 2007, effective date of this proposal does not change the fiscal impact of this legislation, but is needed to ensure compliance with the Streamline Sales Tax Agreement (as adopted August 30, 2006) Section 304, which provides that member states should make a reasonable effort to "limit the effective date of a rate change to the first day of a calendar quarter."

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: National Retail Federation's *2006 Back-to-School Consumer Intentions and Actions Survey*; BIGresearch, July 2006. Enrollment statistics from the National Center for Education Statistics, http://nces.ed.gov/programs/digest/d04_tf.asp.

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